

ORIGINAL

OPEN MEETING



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MEMORANDUM

Arizona Corporation Commission

DOCKETED

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2011 SEP 21 P 3:25

TO: THE COMMISSION

SEP 21 2011

FROM: Utilities Division

DOCKETED BY

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AZ. CORP COMMISSION
DOCKET CONTROL

DATE: September 21, 2011

RE: TUCSON ELECTRIC POWER COMPANY – FILING TO ADDRESS 2011
RESIDENTIAL DISTRIBUTED GENERATION INCENTIVE APPLICATIONS
(DOCKET NO. E-01933A-10-0266)

On September 13, 2011, Tucson Electric Power Company (“TEP”) filed a Notice of Suspension of Acceptance of Residential Incentive Applications Under 2011 REST Plan or, Alternatively, Request to Modify 2011 REST Plan.

In Decision No. 70233, the Arizona Corporation Commission (“Commission”) approved TEP’s 2011 REST plan, including a budget of \$14,358,111 to pay for up-front incentives for residential distributed generation (“DG”) installations. TEP’s September 13, 2011 filing indicates that it has halted taking reservations for residential DG incentives due to a large rush of applications, involving over \$3 million of incentives, between September 1, 2011 and September 12, 2011. Up to this point TEP indicates that its 2011 residential DG budget was roughly on schedule to be fully spent near the end of 2011. TEP indicates that the \$3 million represents approximately 200 systems. By comparison, TEP received applications related to approximately 125 residential DG systems each month prior to September 2011. TEP’s notice states that 90 percent or more of the systems during this major influx are leased systems. Prior to this time TEP has indicated that leased systems did not represent a major portion of residential DG systems in Tucson.

TEP’s current residential DG incentive is \$2.00 per watt. TEP’s proposed 2012 REST Plan, filed in Docket No. E-01933A-11-0269 and still pending before the Commission, contains a proposal by TEP to reduce the residential DG incentive to \$1.75 per watt for non-leased systems and \$1.00 per watt for leased systems.

On September 9, 2011, TEP sent a notice to installers, indicating that TEP had received applications for \$2.2 million in residential incentives in the first week of September and had exhausted remaining DG funds for 2012. The notice further indicated that TEP would accept a further 75 applications between September 9, 2011 and September 16, 2011, after which TEP would not accept further applications. TEP has reported to Staff that after the initial 75 applications came in, it turned away another approximately 100 applications during that week.

TEP’s September 13, 2011 application notifies the Commission that TEP was suspending the acceptance of further residential DG applications and proposes an option for Commission

consideration wherein TEP would transfer approximately \$700,000 in commercial performance based incentives ("PBIs") to the residential DG budget and use those funds to meet further residential DG applications at a reduced incentive level of \$1.00 per watt until such funds are exhausted. TEP would then accept no further applications until the Commission acts to approve an incentive level for TEP's 2012 REST plan.

TEP has indicated to Staff that it received approximately \$1.6 million of applications for residential DG incentives between September 9, 2011 and September 16, 2011. TEP indicated that TEP does not currently have residential DG funds in its 2011 residential DG budget to accommodate the \$1.6 million in applications received between September 9, 2011 and September 16, 2011. In discussions with Staff, TEP has indicated that it would seek to satisfy the \$1.6 million in applications at the old incentive level before providing funds for further residential DG systems at its proposed incentive level of \$1.00 per watt. TEP has indicated that it has fully complied with the residential DG REST rule requirement and that any further residential DG systems installed would result in TEP over complying with the 2011 residential DG requirements.

Staff believes that TEP's proposal has merit. Clearly the Tucson photovoltaic market has changed and the current incentive levels are too high. While TEP's proposed 2012 REST plan contemplates a reduction in the residential DG incentive level to \$1.75 per watt in 2012, Staff believes that the next few months provide an opportunity to test whether a significantly lower incentive level can generate business in TEP's service territory. Arizona Public Service Company ("APS") has had a Rapid Reservation program in place at the \$1.00 per watt incentive level for residential DG throughout 2011. APS has seen significant numbers of applications at the \$1.00 per watt level in 2011, averaging 50 reservations a week, as noted in the Staff Memorandum dated September 30, 2011 in Docket Nos. E-01345A-10-0262 and E-01345A-10-0166. Staff believes that TEP's proposal should be adopted, but with an incentive level of \$0.75 per watt, rather than the \$1.00 per watt proposed by TEP. If this incentive level proves to be too low over the next few months, with little or no activity, this information can be taken into account when TEP's residential DG incentive level for 2012 is set by the Commission in that ongoing docket. An inherent benefit of setting a lower incentive level is that more systems can be installed for the same amount of money.

TEP has reported to Staff that its commercial DG UFI budget has also recently been exhausted for the rest of 2011. Staff believes that given this situation with commercial UFI DG, if additional funds are offered for UFI incentives for the rest of 2011, such funds should be made available to both the residential and commercial UFI DG sectors. The table below shows the funds TEP has available in various parts of the 2011 REST budget that could be shifted to provide additional UFI incentives.

| 2011 REST Budget Line Item | 2011 REST Budget Allocation | Available Funds |
|----------------------------|-----------------------------|-----------------|
| Utility Scale Energy | \$6,301,943 | -\$25,016 |

| | | |
|-----------------------|-------------|-------------|
| Commercial DG PBI | \$5,753,375 | \$2,503,557 |
| Marketing | \$750,000 | \$50,000 |
| Metering | \$486,685 | \$236,685 |
| AZ Solar Website | \$150,000 | \$140,000 |
| Total Available Funds | | \$2,905,226 |

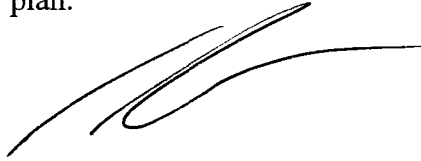
The funds that would be shifted from the commercial DG PBI budget involve approximately \$700,000 in funds that may have been allocated to projects resulting from applications that would have been accepted through the end of 2011, and \$1.8 million of funds for PBI projects related to applications that have been accepted in 2011, but that have not performed at a level that would require use of the \$1.8 million in PBI funds in 2011. Any commercial DG projects that would have been funded in late 2011 would be eligible for participation in TEP's 2012 commercial DG PBI program beginning in January 2012.

Staff agrees that TEP should meet the 75 additional systems at the current \$2.00 per watt incentive. Staff then believes the remaining \$1,264,500 should be made available at an incentive level of \$0.75 per watt for both residential and commercial UFIs. If this funding is then exhausted, TEP should accept further applications through the end of 2011, with the proviso that such applications would be subject to whatever UFI level the Commission approves for TEP's 2012 REST plan. Any funds that are not spent through the end of 2011 would roll over to future year REST budgets, as normally happens. The table below shows how the available funds above would be allocated.

| Funding Destination | Funding Amount |
|---|----------------|
| Provide UFIs to 75 additional applications received by TEP in the first week of September 2011 | \$1,640,726 |
| Provide residential and commercial DG UFIs at a \$0.75 per watt incentive level for the remainder of 2011 | \$1,264,500 |

In summary, Staff recommends that TEP be allowed to shift approximately \$2.9 million in 2011 REST plan funds to fund additional residential and commercial DG UFIs. Staff further recommends that TEP fund the 75 additional residential DG applications at the current \$2.00 per watt incentive level. Staff further recommends that TEP make available \$1,264,500 for UFIs to fund additional residential and commercial DG at an incentive level of \$0.75 per watt for the rest

of 2011. Staff further recommends that if the \$2.9 million is exhausted, that TEP accept applications for 2012 residential and commercial DG UFI projects, with the proviso that such applications will receive whatever incentive the Commission approves for the 2012 TEP REST plan.

A handwritten signature in black ink, consisting of several fluid, overlapping strokes that form a stylized representation of the name Steven M. Olea.

Steven M. Olea
Director
Utilities Division

SMO:BGG

ORIGINATOR: Bob Gray

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 GARY PIERCE

Chairman

3 BOB STUMP

Commissioner

4 SANDRA D. KENNEDY

Commissioner

5 PAUL NEWMAN

Commissioner

6 BRENDA BURNS

Commissioner

7
8 IN THE MATTER OF THE APPLICATION)
9 OF TUCSON ELECTRIC POWER)
10 COMPANY FOR APPROVAL OF ITS 2011)
11 RENEWABLE ENERGY STANDARD)
12 IMPLEMENTATION PLAN AND)
13 DISTRIBUTED ENERGY)
14 ADMINISTRATIVE PLAN AND REQUEST)
15 FOR RESET OF RENEWABLE ENERGY)
16 ADJUSTOR)

DOCKET NO. E-01933A-10-0266

DECISION NO. _____

ORDER

15 Open Meeting
16 *To Be Determined*
17 Phoenix, Arizona

17 BY THE COMMISSION:

18 FINDINGS OF FACT

19 1. Tucson Electric Power Company ("TEP" or "Company") is certificated to provide
20 electric service as a public service corporation in the State of Arizona.

21 2. On September 13, 2011, TEP filed a Notice of Suspension of Acceptance of
22 Residential Incentive Applications Under 2011 REST Plan or, Alternatively, Request to Modify
23 2011 REST Plan.

24 3. In Decision No. 70233, the Arizona Corporation Commission ("Commission")
25 approved TEP's 2011 REST plan, including a budget of \$14,358,111 to pay for up-front incentives
26 for residential distributed generation ("DG") installations.

27 4. TEP's September 13, 2011 filing indicates that it has halted taking reservations for
28 residential DG incentives due to a large rush of applications, involving over \$3 million of

1 incentives, between September 1, 2011 and September 12, 2011. Up to this point TEP indicates
2 that its 2011 residential DG budget was roughly on schedule to be fully spent near the end of 2011.
3 TEP indicates that the \$3 million represents approximately 200 systems. By comparison, TEP
4 received applications related to approximately 125 residential DG systems each month prior to
5 September 2011.

6 5. TEP's notice states that 90 percent or more of the systems during this major influx
7 are leased systems. Prior to this time TEP has indicated that leased systems did not represent a
8 major portion of residential DG systems in Tucson.

9 6. TEP's current residential DG incentive is \$2.00 per watt. TEP's proposed 2012
10 REST Plan, filed in Docket No. E-01933A-11-0269 and still pending before the Commission,
11 contains a proposal by TEP to reduce the residential DG incentive to \$1.75 per watt for non-leased
12 systems and \$1.00 per watt for leased systems.

13 7. On September 9, 2011, TEP sent a notice to installers, indicating that TEP had
14 received applications for \$2.2 million in residential incentives in the first week of September and
15 had exhausted remaining DG funds for 2012. The notice further indicated that TEP would accept
16 a further 75 applications between September 9, 2011 and September 16, 2011, after which TEP
17 would not accept further applications. TEP has reported to Staff that after the initial 75
18 applications came in, it turned away another approximately 100 applications during that week.

19 8. TEP's September 13, 2011 application notifies the Commission that TEP was
20 suspending the acceptance of further residential DG applications and proposes an option for
21 Commission consideration wherein TEP would transfer approximately \$700,000 in commercial
22 performance based incentives ("PBIs") to the residential DG budget and use those funds to meet
23 further residential DG applications at a reduced incentive level of \$1.00 per watt until such funds
24 are exhausted. TEP would then accept no further applications until the Commission acts to
25 approve an incentive level for TEP's 2012 REST plan.

26 9. TEP has indicated to Staff that it received approximately \$1.6 million of
27 applications for residential DG incentives between September 9, 2011 and September 16, 2011.
28 TEP indicated that TEP does not currently have residential DG funds in its 2011 residential DG

1 budget to accommodate the \$1.6 million in applications received between September 9, 2011 and
2 September 16, 2011.

3 10. In discussions with Staff, TEP has indicated that it would seek to satisfy the \$1.6
4 million in applications at the old incentive level before providing funds for further residential DG
5 systems at its proposed incentive level of \$1.00 per watt.

6 11. TEP has indicated that it has fully complied with the residential DG REST rule
7 requirement and that any further residential DG systems installed would result in TEP over
8 complying with the 2011 residential DG requirements.

9 12. Staff believes that TEP's proposal has merit. Clearly the Tucson photovoltaic
10 market has changed and the current incentive levels are too high. While TEP's proposed 2012
11 REST plan contemplates a reduction in the residential DG incentive level to \$1.75 per watt in
12 2012, Staff believes that the next few months provide an opportunity to test whether a significantly
13 lower incentive level can generate business in TEP's service territory. Arizona Public Service
14 Company ("APS") has had a Rapid Reservation program in place at the \$1.00 per watt incentive
15 level for residential DG throughout 2011. APS has seen significant numbers of applications at the
16 \$1.00 per watt level in 2011, averaging 50 reservations a week, as noted in the Staff Memorandum
17 dated September 30, 2011 in Docket Nos. E-01345A-10-0262 and E-01345A-10-0166.

18 13. Staff believes that TEP's proposal should be adopted, but with an incentive level of
19 \$0.75 per watt, rather than the \$1.00 per watt proposed by TEP. If this incentive level proves to be
20 too low over the next few months, with little or no activity, this information can be taken into
21 account when TEP's residential DG incentive level for 2012 is set by the Commission in that on-
22 going docket. An inherent benefit of setting a lower incentive level is that more systems can be
23 installed for the same amount of money.

24 14. TEP has reported to Staff that its commercial DG UFI budget has also recently been
25 exhausted for the rest of 2011. Staff believes that given this situation with commercial UFI DG, if
26 additional funds are offered for UFI incentives for the rest of 2011, such funds should be made
27 available to both the residential and commercial UFI DG sectors. The table below shows the funds

28 ...

TEP has available in various parts of the 2011 REST budget that could be shifted to provide additional UFI incentives.

| 2011 REST Budget Line Item | 2011 REST Budget Allocation | Available Funds |
|----------------------------|-----------------------------|-----------------|
| Utility Scale Energy | \$6,301,943 | -\$25,016 |
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| Metering | \$486,685 | \$236,685 |
| AZ Solar Website | \$150,000 | \$140,000 |
| Total Available Funds | | \$2,905,226 |

15. The funds that would be shifted from the commercial DG PBI budget involve approximately \$700,000 in funds that may have been allocated to projects resulting from applications that would have been accepted through the end of 2011, and \$1.8 million of funds for PBI projects related to applications that have been accepted in 2011, but that have not performed at a level that would require use of the \$1.8 million in PBI funds in 2011. Any commercial DG projects that would have been funded in late 2011 would be eligible for participation in TEP's 2012 commercial DG PBI program beginning in January 2012.

16. Staff agrees that TEP should meet the 75 additional systems at the current \$2.00 per watt incentive. Staff then believes the remaining \$1,264,500 should be made available at an incentive level of \$0.75 per watt for both residential and commercial UFIs. If this funding is then exhausted, TEP should accept further applications through the end of 2011, with the proviso that such applications would be subject to whatever UFI level the Commission approves for TEP's 2012 REST plan. Any funds that are not spent through the end of 2011 would roll over to future year REST budgets, as normally happens. The table below shows how the available funds above would be allocated.

| Funding Destination | Funding Amount |
|---|----------------|
| Provide UFIs to 75 additional applications received by TEP in the first week of September 2011 | \$1,640,726 |
| Provide residential and commercial DG UFIs at a \$0.75 per watt incentive level for the remainder of 2011 | \$1,264,500 |

17. Staff has recommended that TEP be allowed to shift approximately \$2.9 million in 2011 REST plan funds to fund additional residential and commercial DG UFIs.

19. Staff further recommends that TEP make available \$1,264,500 for UFIIs to fund additional residential and commercial DG at an incentive level of \$0.75 per watt for the rest of 2011.

20. Staff further recommends that if the \$2.9 million is exhausted, that at that time TEP begin accepting applications for 2012 residential and commercial DG UFI projects, with the proviso that such applications will receive whatever incentive the Commission approves for the 2012 TEP REST plan.

1. Tucson Electric Power Company is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Tucson Electric Power Company and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated September 21, 2011, concludes that it is in the public interest to approve the shift in 2011 REST plan funds and changes in incentive levels as discussed herein.

IT IS THEREFORE ORDERED that Tucson Electric Power Company be allowed to shift approximately \$2.9 million in 2011 REST plan funds to fund additional residential and commercial DG UFI's.

IT IS FURTHER ORDERED that Tucson Electric Power Company fund the 75 additional residential DG applications at the current \$2.00 per watt incentive level.

IT IS FURTHER ORDERED that Tucson Electric Power Company fund the 75 additional residential DG applications at the current \$2.00 per watt incentive level.

IT IS FURTHER ORDERED that Tucson Electric Power Company make available \$1,264,500 for UFI's to fund additional residential and commercial DG at an incentive level of \$0.75 per watt for the rest of 2011.

1 IT IS FURTHER ORDERED that if the \$2.9 million is exhausted, that at that time Tucson
2 Electric Power Company begin accepting applications for 2012 residential and commercial DG
3 UFI projects, with the proviso that such applications will receive whatever incentive the
4 Commission approves for the 2012 Tucson Electric Power Company REST plan.

5 IT IS FURTHER ORDERED that this Decision become effective immediately.

6
7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

8
9 _____
CHAIRMAN

COMMISSIONER

10
11
12 COMMISSIONER

COMMISSIONER

COMMISSIONER

13
14 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
15 Executive Director of the Arizona Corporation
16 Commission, have hereunto, set my hand and caused the
17 official seal of this Commission to be affixed at the
18 Capitol, in the City of Phoenix, this _____ day
19 of _____, 2011.

20 _____
ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

21
22 DISSENT: _____

23 DISSENT: _____

24 SMO:RGG:lhm/CH
25
26
27
28

Decision No. _____

SERVICE LIST FOR: Tucson Electric Power Company
DOCKET NO. E-01933A-10-0266

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